

Chapter

# 8

## AGING & EMPLOYMENT

---

*Trends in Health Insurance, Pension Plans,  
Social Security, Individual Savings and Their  
Effects on Retirement Planning*

By Ronda Devino, Veronique Petrucci and Evan Snider

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

**Abstract**

- Demographic forecasts in the United States project a growing imbalance between working contributors and retired beneficiaries, increasing pressure on Social Security, Pension Plans and the Medicare system.
- According to the Medicare board of trustees, the Medicare trust fund will be exhausted in 2019 as a result of lower projected payroll tax income, exploding health costs and the new Medicare drug law.
- Prescription drug costs and unhealthy, sedentary lifestyles have caused a dramatic increase of healthcare costs.
- Faced with growing medical costs, many employers are deciding to cut back benefits and ask workers and retirees to bear more of the costs or sometimes even the full costs of their health insurance premiums.
- It is imperative that actions are undertaken on different fronts simultaneously to successfully resolve this challenging healthcare crisis. We advocate a concerted participation of policymakers, employers and individuals. Our recommendations include: facilitate importation of cheaper prescription drugs from Canada and Mexico, encourage use of generic drugs, rollback all or part of the recent federal income tax cut and use these funds to strengthen Medicare and the Social Security system, promote healthier lifestyles and disease prevention by offering financial incentives, encourage best medical practices, invest in chronic care and disease management and decrease the number of uninsured people by offering tax credits or an universal health insurance.
- Changing demographics of the U.S. work force also require significant changes to Social Security and pension plans in order to preserve the system for future generations. The uncertainty surrounding these changes poses a problem to retirement planners.
- The worsening economic conditions in the United States in recent years have negatively impacted the funding status of defined benefit pension plans. The number of underfunded plans has increased dramatically, thereby threatening the availability of these funds for plan participants.
- In order to reduce pension-funding liabilities, companies are taking steps to reduce or eliminate benefits. A growing percentage of companies are converting to defined contribution plans in order to transfer investment risk to plan participants. Overall, these changes make an individual's expected benefit at retirement more difficult to estimate.

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

- Changes in Social Security, Medicare and retirement plans make it imperative to begin saving as early as possible. Contributions to 401k/403b plans should be at the highest percentage that the company will match prior to looking into any additional retirement options.
- Roth IRA accounts are advantageous compared to traditional IRA accounts because withdrawal requirements are not as stringent as the normal IRA and withdrawals after the age of 59 1/2 are non-taxable. Employees should contribute the maximum possible to a Roth IRA after first taking full advantage of their employers' 401k program.
- Individual savings will be a key part of successful retirement plans. Individuals that lack a disciplined retirement savings plan may find themselves working longer or returning to the workforce after retirement in order to compensate for increased medical costs and decreased benefits from pension plans and Social Security.

## **Introduction**

For many Americans, the notion of retirement is the true “American Dream”. After spending over half of their lives in the working world, Americans look forward to the time when they can leave the confines of their job to enjoy a life of leisure. With retirement being such a prized goal of Americans, one would believe that individuals spend large amounts of time planning for their retirement. Unfortunately, studies show otherwise.

The annual Retirement Confidence Survey conducted by the Employee Benefit Research Institute finds that many Americans are overly optimistic about their retirement prospects and have a true lack of understanding about their future financial needs (Greene, A6). The study finds that individuals overestimate the likelihood of getting retirement benefits from their employers and underestimate expected spending during retirement, especially in the area of health care. In this paper, we look at several areas where individuals’ retirement plans tend to be overly optimistic.

First, we look at rising health care costs and the problems plaguing the American health care system today. Second, we review the Social Security system and some of the problems that may lead to reduced benefits for future retirees. Third, we look at some of the trends of private pension plans and the impacts those trends have on an individual’s ability to accurately estimate the amount of pension benefits received in retirement. And finally, we look at the key factor to a successful retirement plan – individual savings.

## **Part I: The American Health care system**

### **Introduction**

As for any presidential election year, the status of health insurance in the US is very high on the national agenda. In particular, a lot of controversy emerges on the causes and consequences regarding the forecast insolvency of the federal program Medicare and also about the new Medicare law signed on Dec. 8, 2003. With the help of a large amount of information, sometimes contradictory, often political and always confusing, the following paper will present and discuss the implications of the aging labor force on health insurance issues for older workers and retirees. After presenting the current Medicare program, we will discuss the health status of the American aging population and the reasons for the dramatic increase of healthcare costs observed during the past decade. The next section will discuss the impact of the previous findings on older workers and retirees. Finally, we will suggest some recommendations for policymakers, employers, workers and retirees about how to better deal with the gaps in the US health system.

### **I. The Medicare program**

Medicare is the primary payer of health care services for persons age 65 and over and disabled people. It covers 41 million Americans.

The Medicare program consists of 4 parts:

- Part A, the Hospital Insurance program, accounts for 46% of benefit spending in 2004. It covers inpatient hospital, skilled nursing facility, hospices and home

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

- health care. It is financed by a 1.45% payroll tax paid by employees and employers.
- Part B, the Supplementary Medical Insurance, accounts for 33% of spending in 2004. It covers physician and outpatient hospital care, lab tests, medical supplies and home health. It is financed by beneficiary premiums (25%) and general revenues (75%).
  - Part C accounts for 14% of spending in 2004. It refers to managed care plans that provide Part A and Part B benefits to enrollees. Formerly called “Medicare+Choice”, Part C has been renamed “Medicare Advantage”.
  - Part D refers to the new outpatient prescription drug benefit that will be implemented in January 2006, according to the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. It will be financed through beneficiary premiums (25.5%) and general revenues (74.5%).

**The Medicare Prescription Drug, Improvement, and Modernization Act of 2003**

On Dec. 8, 2003, the president signed into law the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which creates a voluntary prescription drug benefit for Medicare beneficiaries to begin in 2006.

Below are presented the key features of the new law:

- \$530 billion in federal government spending 2004-2013
- Drugs benefit through regional stand alone private drug plans or (Health Maintenance Organizations (HMOs) or Preferred Provider Organizations (PPOs)
- Subsidies to encourage private plan participation, extra payments to HMOs

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

- Subsidies for low-income beneficiaries: AARP estimates that about 13.4 million low-income seniors are going to get prescription drug coverage with modest or no premiums or deductibles
- Subsidies to employers to maintain retiree coverage
- Enrollment optional, but risk of penalty if enrollment delayed after the 6 first months
- Annual premium in 2006 about \$420, can vary by plan
- Annual deductible \$250 indexed to drug spending
- Coverage gap (donut hole): no coverage for spending between \$2250 and \$5100
- Catastrophic coverage after reaching about \$3600 out-of-pocket limit: 95% of drugs costs or minimal copayment, whichever is greater.
- Part B will provide a few more preventive benefits, including physical exams, screening blood tests for early detection of cardiovascular diseases and diabetes screening tests for at risk beneficiaries.
- Health savings account: open to anyone under 65 covered by a health-insurance policy with an annual deductible of at least \$1000 for single, maximum contribution of \$2600 a year tax-deductible, tax-free withdrawals for medical expenses, no income limitations

Medicare-Approved Drug Discount Card Program:

- Effective in June 2004 and ends in January 2006
- Choice of at least 2 discount cards
- Annual enrollment fee of \$30

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

- Discounts of about 10%-15% of total drug costs
- Beneficiaries with income below 135% of poverty (\$12569 single/\$16862 couple) who do not have private or Medicaid drug coverage, pay no fee and receive \$600 annual subsidy toward the purchase of drugs; no asset test.

**Medicare and supplements and changes due to the new Medicare drug law**

On average, the elderly spent an estimated 22% of their income for health care services and premiums in 2002 because of gaps in Medicare's coverage. Consequently, most seniors have some form of supplemental insurance. Only 11% of beneficiaries have only Medicare. The new Medicare drug law is expected to result in changes for those who currently supplement Medicare from other sources, as follows:

- Employer-sponsored benefits: 34% (in 2001) of retirees had benefits through their employer. However, this percentage is likely to decrease as more employers are cutting back or even dropping their retiree health benefits in an effort to remain competitive. In 2006, employers that elect to provide prescription drug benefits comparable to Part D will receive subsidies from Medicare. Nevertheless, the Congressional Budget Office (CBO) estimates that nearly 1 in five Medicare beneficiaries with retiree coverage would lose drug benefits from an employer plan.
- Medigap: 23% (in 2001) owned a Medigap policy, but only 7% of all beneficiaries had drug coverage from Medigap. Medicare beneficiaries can purchase a Medigap plan directly from a private insurance company. There are 10

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

standardized health insurance plans but premiums vary based on age, health and geographic area.

This source of coverage is also expected to decrease in 2006 because the three Medigap plans that offer prescription drug coverage will no longer be sold to new applicants once Part D becomes available.

- Medicaid: 12% (in 2001) were covered under Medicaid, the major public insurance program for low-income Americans, regardless of employment status. Eligibility is based on family size, income and assets.

Medicaid will no longer offer drug coverage to dual eligibles that will have to enroll in Part D for their drug benefits.

- Medicare + Choice: 18% (in 2001) were enrolled in Medicare+Choice plans. The number of Medicare beneficiaries enrolled in managed care plans is expected to increase under the new Medicare drug law because of large subsidies offered to HMOs and PPOs for the next 10 years.

- Other public programs: 2%

All statistics cited above and additional information can be found at the Kaiser Family Foundation website ([www.kff.org](http://www.kff.org)) and in the government websites related to health insurance issues ([www.medicare.gov](http://www.medicare.gov), [www.cms.hhs.gov](http://www.cms.hhs.gov)).

## **II. Health status of the Aging population**

### A few demographic statistics

In 2011, the first baby boomers will turn 65. By 2025, 18.5% of the US population will be 65 or over, compared to 12.4% in 2000. The number of people 85 and older is projected to rise 73% over the same period and more than double again by 2050.

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

The positive view

Based on the assumption that the risk of developing certain diseases increases exponentially with age, hospitals nationwide are preparing for the aging of baby boomers and are expanding capacity in anticipation of a dramatic demographic growth (Benko, 2003). However, advances in medical technology, genomics and preventive care are fast curbing many of the effects of age-related diseases. Radical breakthroughs in medical technology are rapidly turning acute and often deadly diseases into manageable and eventually curable conditions. More lifesaving drugs appear on the market that slow or reverse the march of diseases that used to require costly treatments such as heart bypass surgery. Using new interactive monitoring systems will also help by anticipating serious health problems. Ongoing research at Duke University shows that chronic disability rates among seniors ages 60 to 69 have been falling by more than 10% since 1982. If the decline continues, the number of seniors with disabilities will be 40% less by 2027. It is expected that seniors will enjoy a longer health span or a greater stretch of productivity but also will typically experience only brief acute illness before death rather than years of costly chronic disability.

The negative view

Although everybody agrees that seniors age 60 and over will live longer and better than previous generations, the results are different for younger adults. A recent study by Rand Corporation researchers shows that younger Americans are far more likely to be disabled than they were 20 years ago ([www.rand.org](http://www.rand.org)). Most affected are people ages 30-49 whose disability rates increased by more than 50 % due primarily to obesity. Some portion of this growth may be explained by disability insurance incentives and

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

could also be linked to advancing medical technology. Medical advances have saved people who normally would have died but many end up needing help and going on disability. Nevertheless, such an increase in disability rates indicate a worsening of the young population health status. Huge discrepancies also exist between Anglo-Americans and minorities populations. For example, the prevalence of chronic diseases including diabetes, hypertension, coronary heart disease, arthritis, stroke, AIDS and Asthma has an excessive impact on African-Americans compared to white Americans, for any group age (BlackHealthCare.com).

Obesity is considered the biggest threat to continued gains in healthy aging. The prevalence of obesity increased by 40% between 1980 and 1990. In 2002, more than 20% of the American population were obese (127 million overweight, 60 million obese and 9 million severely obese). Obesity leads to many chronic conditions such as diabetes or cardiovascular diseases and it is the second leading cause of preventable death in the US after tobacco. It is increasing among all age, gender, racial and ethnic groups. There is no trend to indicate a reversal in the increasing prevalence of obesity. (www.obesity.org).

Even though Americans spend more per person on health care than any other nation, they don't live any longer because of unhealthy physical and psycho-social behavior. Even at its best, as Phillip Longman put it, "modern medicine can do little to promote productive aging in these conditions" (Longman, 2004). Researchers at Rand corporation warned that the increase in the disability rate could have severe consequences for the nation's future health costs.

### **III. Healthcare costs**

#### **1. Impact of Prescription drugs**

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

Prescription drug costs, which rose by 15.7% in 2001, are the fastest rising segment of health care costs and accounted for 16.7% of the total increase in health care spending that year. Americans spent \$162.4 billion on prescription drugs in 2003, up from less than \$100 billion a decade ago. While prescriptions represented only 10.5% of total health-care costs in the US in 2002, they amounted to 23% of out-of-pocket costs for the consumer. The reasons that explain most of the drug bill increase are the following:

- Prices on individual drugs have climbed sharply.
- More people are also taking what might be termed lifestyle drugs.
- Physicians are increasingly prescribing drugs for children and multiple drugs for an aging population.

The drug industry says that developing new medicines requires cutting-edge science, enormous investment of time and money, and willingness to commit those resources in the face of expensive failure after failure. As a business, the pharmaceutical industry has to pass the costs onto its customers and will charge the highest prices the market will bear for its products. In almost every other developed country, governments regulate lower prices with suppliers (e.g. in Canada). The US government has largely avoided doing so, mainly because of drug-industry lobbying and political resistance to anything like price controls. Moreover, the US forbids the import of prescription drugs by anyone other than the original US manufacturer and even then, only when the drugs meet all the approval requirements of the US Food and Drug Administration for reasons of consumer safety (Barlett et al., 2004).

## **2. Impact of disabled people**

For Medicare program

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

About 32% of Medicare beneficiaries have disabling health conditions (cognitive, physical or both) and account for about 60% of the total Medicare expenditures (Cooper et al., 2004). Arthritis, hypertension and heart disease are the three most commonly reported chronic conditions. Among Medicare beneficiaries not living in a nursing facility, 92% have at least one chronic condition (over 50% have at least 3). As expected, a beneficiary's annual drug spending increases as the number of chronic conditions increases. Furthermore, spending on drugs for chronic conditions is rising. 53% of the drug spending growth in the US is attributable to drugs treating nine chronic conditions: high cholesterol, high blood pressure, arthritis, depression, diabetes, pain, allergies, ulcers and other gastrointestinal disorders ([www.ebri.org](http://www.ebri.org)). The increases in spending are due to several factors, including a rise in the use of drugs and shifts to more costly (newer) drugs for such conditions. The share of beneficiaries taking medications for chronic conditions is growing too (Boccuti et al., 2003). The economic costs (medical expenditures and loss of productivity) of obesity are estimated over \$200 billion a year, making it one of the most expensive diseases in the country ([www.obesity.org](http://www.obesity.org)).

There is a potential risk, as we have seen in a previous paragraph, that younger workers have or will have more chronic disabilities than the current older workers. Based on the findings we have just highlighted, it is now easy (and frightening!) to forecast what could happen to Medicare funds when younger workers will attain retirement age. We should expect the total Medicare expenditures to be even greater than they are currently.

For employer-sponsored benefits

The results are basically the same as for the Medicare program. Employees with chronic disabilities are very expensive to their health insurance. According to an analysis

of disability trends built from MetLife's claims database, the top five chronic causes of workplace disability are lower back disorders, depression, coronary heart disease, arthritis and pulmonary diseases. These illnesses have been estimated to cost employers more than \$500 billion annually in employee absences, diminished productivity and increased healthcare costs. (Anonym, Heart Disease Weekly, 2003)

### **3. impact of uninsured people**

The share of working-age adults (19 to 64) who experienced a time without insurance coverage increased from 24% to 26% over 2001-03. 15% of uninsured are in the age group 50-64. The main reason for the increase in the number of uninsured Americans in 2002 was the weak economy coupled with the rising cost of providing health benefits. In 2003, more than 45 million people were without coverage for some time during the year. Insurance coverage was most unstable among those with the lowest incomes and minorities (Collins et al., 2004). People without health insurance are at risk for poorer health and premature death as a result of their lack of coverage. 32% of uninsured people in age 50-64 have two or more chronic conditions such as heart disease, cancer, diabetes or arthritis. The US loses \$65 billion to \$130 billion a year as a result of poor health and early deaths of uninsured adults. Taxes paid for about 85% of the \$35 billion cost of unreimbursed medical care for the uninsured in 2001 (Davis, 2003).

### **4. Medicare's financial condition**

In its annual report to Congress, the Medicare board of trustees said that Medicare's financial condition has significantly deteriorated, as a result of lower projected payroll tax income, exploding health costs and provisions in the new Medicare drug law. The trustees forecast that "under current law, Medicare's hospital insurance trust fund, which

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

pays for inpatient hospital care (Part A), will be exhausted in 2019. Medicare will grow much faster than the economy as a whole, increasing from 2.6% of the gross domestic product in 2003 to 3.7% in 2010, 7.7% in 2035 and nearly 14% at the end of the 75-year period commonly used for long-range projections” (Pear, 2004). The long-term figure may be unrealistic because of the unpredictability of the impact of biomedical research in the future. New treatments or cures for chronic diseases could radically reduce the costs of health care in the future. Nevertheless, there are no reasons not to believe the short-term figure. We have seen in the previous paragraphs that prescription drugs prices, costs for disabled and/or uninsured are all responsible for the accelerated increase in health costs. The trustees believe that “solutions should be found in the near future to ensure the financial integrity of the Hospital Insurance program and to provide effective means to reduce the rate of growth in Medicare costs”(2004 Medicare’s Annual Report). The most obvious solution seems to be a raise in taxes which is not particularly popular. 15 years are maybe too short a period to, for example, change Americans lifestyles in an effort to prevent chronic disabilities but it certainly would be a start.

**IV. Impact of previous findings on demographics and healthcare cost increases for older workers and retirees.**

**1. Insurance through employer**

99% of employees covered by employment-based benefits have prescription drug coverage and more than 6 in 10 are in three-tier drug benefit plans to encourage price sensitivity among their members and influence drug utilization ([www.ebri.org](http://www.ebri.org)).

However, more companies are facing growing medical costs and rising numbers of retirees. The average annual cost of medical coverage ranged from \$6000 to \$10000 in

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

2003, an increase of up to 75% since 1997 (Wiener, 2004). As a result, the segment of the American population with employment-based health coverage dropped from 66% in 1988 to 38% in 2002 (Davis, 2003). New organizations may decide not to offer health benefits at all. Other companies decide to cut back benefits to remain competitive and ask workers to bear more of the costs or sometimes even the full cost of the premium: It can touch workers as well as retirees. Experts says that this trend driven by the fast rising cost of health care will continue despite the billions of dollars that the government will distribute to companies that maintain retiree health coverage when the new Medicare drug benefit begins in 2 years.

Reduced benefits

There is evidence of a decline in the quality of coverage among those who are insured. In 2001, 23% of all firms with 200 or more workers offered retiree health benefits compared to 33% in 1999 (Cooper et al., 2004). In a recent survey, more than 40% of 340 medium and large companies reduced medical benefits for their future retirees and an additional 35% said they are likely to do so. 69% of the employers said they have shifted more medical costs to their current retirees via higher co-payments, deductibles and coinsurance (Geller, 2004).

Access- only plan

In contrast to pension financing, companies are not obligated to set aside funds to pay for retiree's health benefits and the health plans can usually be changed or terminated at the company's choosing with no appeal available to the retirees. Among employers that have maintained retiree coverage, about 15% have required some of their retirees to assume the full cost of their insurance in the last two years. Another 31% said they would

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

probably adopt these access-only health plans within the next three years (Freudenheim, 2004). Some companies also don't change their policies for current workers and retirees but announce to their new hired that they will have to pay the full cost of their retiree health benefits.

In an access-only plan, retirees are offered to buy coverage through a group plan. So, they still have access to the lower cost of the company's buying power. Companies typically have subsidized about 60% of the premium. Losing that support can mean several hundred of dollars a month in additional costs. Moreover, in dropping their subsidies, many companies push retirees into insurance pools that are separate from those of younger, healthier workers. That lowers the company's costs for insuring its current workers while raising the premiums charged to retirees even further. But the situation could be worse: the Employee Benefit Research Institute demonstrated the significant savings potential for individuals who have access to retiree health benefits through an employment-based group health plan, as opposed to purchasing insurance in the individual market. This is true even if retirees are asked by employers to pay the full cost of their insurance ([www.ebri.org](http://www.ebri.org)). This is because premiums are usually lower than for individual policies and the retirees do not have to worry about being rejected by insurers because of age or health problems. Still, the coverage is often more expensive than many retirees can afford because the retirees' premium will be calculated according to their age, length of service, medical history and actuaries' estimates of a person's future use of health services.

Consequences

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

The erosion in insurance coverage appears to be impeding Americans's ability to get good health care: the fraction of people who reported difficulties getting the necessary health care because of cost, increased from 29% in 2001 to 37% in 2003. Problems included: not filling a prescription, having a medical problem but not going to a physician or clinic, skipping a medical test, treatment or follow-up visit recommended by a doctor, or not seeing a specialist when a doctor or the respondent thought it was needed (Collins et al., 2004). 41% of adults ages 19 to 64 are experiencing financial problems because of medical bill or accrued medical debt. Uninsured and low-income workers are most at risk.

Employers are increasingly passing on the additional costs to their insured workers, causing some workers to opt out saying they can't afford it. 19% of those whose annual household income is between \$25000 and \$50000 are among the uninsured, with 44% under \$30000 and 24% between \$30000 and \$40000. In a recent survey in the state of South Carolina, 19% of the population was without insurance: 66% were employed but 36% said they did not enroll because they could not afford it. Being uninsured is becoming more of a middle-class problem, not only for poor people or the unemployed (Appleby, 2004).

Early retirees are at high risk because they are facing a downsizing of retiree medical plans and a long wait until they qualify for Medicare at 65. In a 2003 survey, only 36% of companies with 500 workers or more still offered a retiree medical plan to at least some retirees not yet eligible for Medicare, down from 50% in 1993 (Freudenheim, 2004). Early retirees can have a temporary health insurance through COBRA. The Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) is a federal law that can help

people to keep their group health insurance for up to 18 months. Group health coverage for COBRA participants is usually more expensive than health coverage for active employees, since usually the employer formerly paid a part of the premium. It is ordinarily less expensive, though, than individual health coverage ([www.cobrainsurance.com](http://www.cobrainsurance.com)).

## **2. Insurance through Medicare**

Prescription drugs that improve the lives of people living with chronic conditions, can add up to thousands of dollars per year for an individual. Affording these maintenance drugs has proven to be problematic for many beneficiaries. Considering that these drugs generally are prescribed for daily use over months and years, multiple refills of the prescription can translate into high annual costs. Research studies have found that people with chronic conditions skipped doses of medicine in order to make their medicine last longer and /or did not refill prescriptions because of cost. This situation can only make matters worse. Unfortunately, the new Medicare drug law may not bring a lot of relief for people with chronic conditions. In fact, they are likely to bear a larger share of their drugs' cost than people with lower and higher drug expenses because a large portion of their drug spending will fall into the donut hole.

## **V. Conclusions and Recommendations**

We can only agree with Mr Novelli, CEO of AARP, who summarizes the actual situation of the Healthcare system in the US and its future if nothing changes with the following words: "By simply shifting the cost of health care from the government to individuals through drastic measures such as higher premiums and co-pays will not solve the problem. It may only diminish the quality of life for people as they age. And it could

add even greater costs to the nation brought on by poorer health, decrease productivity and greater dependency” (Novelli, 2004). To pour even more money into the healthcare industry might please insurance and pharmaceutical companies but will do little for the American people. We should fight more efficiently the causes of healthcare costs instead of trying to apply a quick fix to the consequences of an “out-of-control” situation. Policymakers, employers and individuals must all work toward better lives and a better healthcare system by improving the quality of health care and the nation’s health.

Following are some recommendations that should help to reach these goals:

**For policymakers to decrease healthcare costs**

• **Prescription drug affordability:**

- Facilitate the import of cheaper drugs from Canada and Mexico
- Encourage the use of generic drugs: about half the prescriptions filled annually are for generic drugs which enter the market at 70-80 % of the relevant brand name drug and can become even cheaper as the market becomes more competitive ([www.ebri.org](http://www.ebri.org)).
- Revise the new Medicare Act: Under the current law, the Department of Health and Human Services which purchases drugs for some seniors under Medicare cannot use Medicare’s market power to negotiate lower prices with drug companies (Barlett et al., 2004).

• **Rolling back all or part of the recent federal income tax cut:**

A liberal analytical group, the Center on Budget and Policy Priorities, estimates that if most of the tax cuts are made permanent, the revenue lost to the federal government in the next 75 years would roughly equal the combined Social Security and Medicare trust

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

fund shortfalls over the period (Anonym, 2004). According to a recent survey, 54% of adults in households with incomes over \$60000 per year were in favor of repeal. Support is highest among adults from lower and middle income households (Collins et al., 2004).

- **Health promotion and disease prevention:**

- Offer people who avoid large lifestyle risks partial relief from Medicare taxes and premiums.

- **Encourage best medical practices:**

- Today only 1 cent out of every dollar spent on the National Institutes of Health goes to establishing “best practices” in medicine (Longman, 2004)
- To cut down on medical errors, many hospitals are adopting sophisticated quality control measures similar to those used by manufacturers to reduce “defect rates”(Wysocki, 2004).
- To avoid infections contracted in hospitals, ask doctors and nurses to wash their hands. It has been shown to be a big factor.

- **Invest in chronic care and disease management:**

Futuristic health care devices to monitor the health status (blood pressure, cholesterol levels, heart function etc...) are already in circulation. Compliance of individuals with chronic diseases goes from 30 to 35% when they check in with a nurse or doctor over the phone to about 95 to 98% when those numbers are transported automatically. Telehealth, the name of the new technology, promises to help individuals stay better connected to the medical system, with greater convenience and less expense (Weil, 2004).

- **Eliminate (or decrease or at least stabilize) the number of uninsured people**

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

- Expanding health insurance coverage by offering tax credits for people to purchase coverage on their own.
- Propose a national health insurance, about 60% of Americans agree (Geller, 2004).

**For employers**

• **Health promotion and disease prevention**

- According to the vice president of MetLife disability, disabilities and associated costs can be managed and in many cases, significantly reduced. By examining the claims experience of both their disability and medical plans together, employers can help control absences and rising health-related costs. By understanding how their company's absences compare with industry norms, employers can identify risk-reduction programs to correct problem areas and spend healthcare dollars where they can have the greatest impact. These steps can include investing in health and wellness programs, employee assistance programs, or making adjustments to their medical coverage to facilitate early treatment for the conditions most markedly affecting their employees. (Anonym, 2003)
- Employers could reward their employees for good healthy behavior, for example, by participation in quantifiable wellness programs.

**For workers to afford health insurance**

- **Work longer**

The overall impact of healthcare costs means that fewer workers will be eligible for retiree health benefits in the future and when they are eligible it will cost them more to participate. Employees nearing retirement age may postpone their decisions to

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

retire because without a job they may not be able to obtain affordable health insurance coverage. 78% of workers say they expect to continue working in some capacity during retirement. About 35% of those say they would do so for financial reasons and 43% to stay active (Geller, 2004).

- **Save more**

Start saving early and take into account reasonable estimates of personal life expectancy in order to understand the financial resources that will be needed to pay for health insurance and expenses in retirement. The amount of money needed would vary with a number of factors, such as: the source of insurances, premium level, benefits covered; annual increases in insurance premiums; age at time of death; retirement age; rate of return on investment; out of pocket expenses and health status. For example, to cover health expenses including insurance premiums, prescriptions and other expenses until age 85, a person would need to have saved between \$100,000 and \$121,000 at age 65 in 2003 according to the employee benefit research institute.

**For early retirees to afford health insurance**

- The only solution may be to go back to work

## **Part II: the Social Security system and pension plans**

### **Social Security**

America's Social Security System was created in 1935 with the passage of the Social Security Act and the program's first monthly benefits were paid in 1940. Along with retirement benefits, the current system also provides limited survivor and disability benefits to individuals who have paid Social Security taxes and their families. Since its inception, Americans have paid over \$4.5 Trillion into Social Security's trust funds and over \$4.1 Trillion has been paid out in benefits. Currently, one in seven Americans receives a Social Security benefit and over 90 percent of workers are in jobs covered by Social Security ([www.ssa.gov](http://www.ssa.gov)).

### **Qualifying for Retirement Benefits**

Social Security's retirement program is based upon the concept of income redistribution. That is, a transfer of income from younger, working Americans (in the form of payroll taxes) to older, retired Americans (in the form of a monthly benefit check). Traditionally, workers who have paid Social Security taxes throughout their working lives could expect to receive retirement benefits when they reach retirement age. A changing population and economic environment may challenge that expectation in the future.

Currently, workers pay Social Security taxes of 7.625% on the first \$87,900 of their gross income. Six and two tenths percent of the tax goes directly to the Social Security trust funds. Of that amount, approximately 85% goes toward retirement and

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

survivor benefits and 15% goes toward the disability programs ([www.ssa.gov](http://www.ssa.gov)). Workers do not pay this portion of the tax on earnings over \$87,900. The remaining 1.45% is used to fund the nation's Medicare program. There is no cap on this portion of the tax. Employers must pay an equal tax of 7.625% on their employees' wages.

Workers receive "credits" for each year they pay Social Security taxes. Currently, workers receive one credit for each \$900 of income on which they pay Social Security taxes and the earnings required to obtain a credit changes each year ([www.ssa.gov](http://www.ssa.gov)). Workers can earn up to four credits each year. Self-employed Americans can also earn Social Security Benefits by paying both the employee's and the employer's share of the Social Security tax on their income (the employer's share can be deducted as a business cost for tax purposes).

For Americans born in 1929 or later, 40 credits are required to obtain Social Security retirement benefits. The number of credits required for Americans born before 1929 are less depending on the individual's year of birth. The number of credits required decreases by the number of years before 1929 a person was born (1928 – 39 credits required, 1927 – 38 credits required, etc.) ([www.ssa.gov](http://www.ssa.gov)). Credit accumulation determines a person's eligibility for retirement benefits; they do not determine the amount of the retirement benefit.

The normal retirement age at which an individual can begin receiving Social Security is dependent on the individual's year of birth and ranges from 65 (to those born in 1937 or earlier) to 67 (for those born in 1960 or later). Individuals can opt for early retirement payments at age 62, but the amount of monthly benefit will be reduced. Individuals who delay activation of their benefits beyond their normal retirement age will

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

receive a higher monthly benefit. In theory, the size of the retirement benefit one will receive over their lifetime is equal under all three scenarios ([www.ssa.gov](http://www.ssa.gov)).

Calculating Retirement Benefits and the Impact on Retirement Planning

The amount of an individual's retirement benefit is based on a series of complex formulas and calculations. In general, the amount of an individual's benefit is based on his/her average earnings over his/her working life, the amount of time spent in the workforce, and the age at which the individual begins receiving retirement benefits ([www.aarp.com](http://www.aarp.com)). The higher an individual's average lifetime earnings, the higher the monthly benefit. Individuals who have a scattered work history may receive fewer benefits than those who have worked steadily over their lives ([4-refund.com](http://4-refund.com)). Initiating benefits before or after the normal retirement date will also have an effect on the monthly benefit amount as discussed in the previous section.

From a financial planning perspective, for those who are nearing retirement, perhaps the best way to calculate the expected Social Security benefit is to inquire directly with the Social Security Administration. The SSA provides three online benefit calculators, which based on inputs provided by the user, will estimate a monthly benefit amount. The SSA also sends a Social Security Statement to most Americans annually. This statement provides the earnings history for an individual as well as an estimate of the retirement benefit the individual could expect to receive. Individuals can also have an opportunity to request a more accurate statement by providing a future estimate of earnings and the age at which the individual expects to retire. This request can be processed online or by calling the SSA directly.

### Working While Obtaining Social Security Benefits

After initiating retirement benefits, individuals may reenter (or remain in) the workforce for a variety of reasons. If an individual has chosen to receive early retirement benefits, the amount of retirement benefit the individual receives will be reduced by \$1 for each \$2 the individual earns above \$11,640. The annual maximum changes on a yearly basis. When an individual reaches his/her full retirement age, there is no reduction in benefits regardless of the amount of income they earn.

### Future of Social Security and Its Impact on Retirement Planning

Changing demographics in the United States have led to concerns about the current structure of the Social Security system. The segment of the US population over age 65 is expected to increase by more than 90% over the next 30 years due primarily to greater life expectancies and the aging of the Baby Boom cohort (CBO). During the same time, the number of adults under the age of 65 is projected to increase by only 15% (CBO). This demographic shift cannot be supported by the current structure of the Social Security program.

Without reform, Social Security actuaries predict that Social Security would be paying out more than it would be taking in by 2018 and that by 2042 the trust funds would be entirely depleted. America would need to invest 11.9 trillion today in order to make the program solvent for another 75 years. If no action is taken by the time the trust funds become depleted, benefits will have to be cut by 27% in order for the system to remain solvent (Brannon, 2004). Clearly, in order for Social Security to remain intact for future generations, major changes will need to be made to the current system.

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

Many ideas have been proposed regarding changes to the Social Security system. While covering each in detail is beyond the scope of this paper, it is important to note some of the probable changes and the effect they will have on the financial planning process. The major changes that have been voiced include: accelerating the increase in retirement age, lengthening the computation period for which benefits are calculated (longer time periods would include more years of lower income thereby reducing benefits), reducing cost of living increases in benefit calculations, and increasing payroll taxes (CBO). These changes would keep Social Security's basic foundation of income redistribution intact.

Some Social Security reformists have also advocated a "privatization" of Social Security whereby private "savings accounts" would be set-up for individuals. Most proposed privatization plans have five characteristics in common: 1) Income at retirement would depend partly on the amount invested in the account and the return earned on that investment; 2) They would reduce current Social Security benefits from the amounts specified under the current law; 3) They would require that workers put a certain percentage of their earnings into a retirement account; 4) They would generally allow workers to decide how to invest their contributions and; 5) They would prohibit withdrawals from the account until a specified age (CBO study). Many of the privatization programs suggest that some form of the current Social Security system will remain intact but benefits would be sharply reduced.

Much of the literature on the subject of Social Security reform suggests that any changes to the Social Security system are not likely to impact workers at or nearing the retirement age. The basic argument is that as the population of retirees and persons

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

nearing retirement grows, so does their voting power. This, combined with strong lobbying from large organizations such as AARP, will pressure lawmakers to preserve Social Security benefits for older Americans. From a financial planning perspective, these individuals should be able to accurately estimate their Social Security income and count on it to achieve their retirement goals.

For individuals who are further away from retirement age, retirement planning for Social Security is not so straightforward. It is clear from the discussion above that, in order to preserve Social Security for future generations, changes to the current program will have to be made. The issue of Social Security reform is currently being widely debated in the United States although there is no clear indication of when action might be taken to reform the system. Younger individuals should stay abreast of public policy decisions related to Social Security and fully understand how those decisions will impact their retirement plan. In the meantime, to be conservative, individuals should plan for a lower benefit or a higher rate of payroll tax that would indirectly affect the amount they are able to save for retirement.

**Pension Plans**

Pension plans are an important supplement to Social Security income for many Americans. About 30% of households aged 65 and older receive income from private pension plans that, on average, represent 9 percent of their post-retirement income (GAO). Employers have traditionally provided pension plans in order to attract and retain employees. Now, many employers are finding that the costs and risks of these

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

plans are becoming too burdensome and many are reducing or eliminating pension benefits.

Types of Pension Plans

There are three major categories of pension plans: defined benefit plans, defined contribution plans, and hybrid plans. Defined benefit (DB) plans are known as traditional company pension plans. DB plans promise a definite and easily determinable benefit at retirement. The amount of benefit an individual is entitled to receive is based on a formula that normally consists of three variables: years of service, average pay over a stated time period, and a multiplier. As a simplified example, the annual benefit calculation formula for a traditional DB plan could be stated as: “the average of the employee’s final five years’ annual salaries multiplied by the employee’s years of service multiplied by 1.35 percent (the multiplier)”. In this example, an employee with 25 years of service and an average salary of \$75,000 over his/her final five years of work, could expect an annual retirement benefit of \$25,313.

As in the above example, defined benefit plans “normally express their benefits in the form of an annuity, or a series of periodic payments over the life of the participant, beginning at a normal retirement age as specified in the plan”(GAO). Typically, these payments are made on a monthly basis. However, many DB plans also offer the employee the option to receive a lump sum benefit at the time of retirement. For those participants who are married and elect to receive their benefits in the form of an annuity, the plan must offer a joint and survivor annuity (GAO). This insures that the spouse of the plan participant will continue to receive a retirement benefit upon the death of his/her

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

spouse. The income that the surviving spouse receives must be at least equal to one half of the income originally received by the deceased plan participant (GAO).

The other major category of pension plans is defined contribution (DC). DC plans consist of individual retirement accounts to which the employer, the employee, or both make contributions. Unlike defined benefit plans, the amount of the retirement benefit an individual receives is not guaranteed. The retirement benefit will depend on the amount of contributions and the investment earnings realized on those contributions.

Defined contribution plans are further classified into three main types: profit sharing, stock-bonus, and money purchase plans (GAO). A profit sharing plan is one in which the employer will make contributions based on the company's financial performance. Originally, these plans were created so employees could share in the profits of their organization but, under current law, employers can make contributions to the account regardless of whether or not they are profitable (GAO). Stock-bonus programs are similar to profit sharing plans but the employer makes contributions to the individual's account in the form of company stock. Money purchase plans require the employer to make contributions to the retirement accounts based upon a specified formula (example: 3% of an employee's salary). In a money purchase plan, employers' contribution commitments must be honored regardless of company financial performance.

Hybrid plans have features of both a defined contribution and a defined benefit plan. One could think of a hybrid plan as a defined contribution plan in which contributions are based on a defined benefit formula (GAO). One of the most common hybrid plans is the cash balance plan. Under a cash balance plan, employers make

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

contributions to a hypothetical employee “account”. Generally, there are two types of contributions to an employee’s account: a pay credit and an interest credit. The pay credit is expressed as a percentage of the employee’s current earnings and the interest credit is expressed as a percentage of the balance in the “account” at the beginning of the calculation period. The employee’s benefit is equal to the theoretical balance in the account at the time of retirement. Cash balance plans are legally classified as defined benefit plans because participants are guaranteed an amount at retirement that is based on a fixed “earnings” rate (6% in the above example). Participants receive the fixed rate regardless of the actual return earned on the pension fund investments.

ERISA and Minimum Funding Requirements

The Employee Retirement Income Security Act of 1974, among other things, established rules for the employer’s management of pension plan assets and disclosure requirements to plan participants. ERISA requires that all contributions and assets of a pension plan must be held in trust. The trustee must make all investment decisions with the best interest of the plan participants in mind. Pension plan trustees are limited in the types of investments in which they can invest pension plan assets. However, in the case of defined contribution plans, the trustees are not responsible for the investment decisions of plan participants. Plan administrators are required to disclose a variety of information to the Federal Government and plan participants. Examples of disclosures include eligibility requirements, provisions regarding termination of the plan, and sources of contributions to the plan.

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

ERISA also establishes minimum funding requirements for defined benefit plans. ERISA requires that companies make a normal contribution to their pension plan that is equal to the Net Periodic Pension Cost (NPPC). The NPPC is calculated by determining the changes in a plan's pension obligations as a result of services rendered by employees during the current period. These costs are netted against the firm's expected return on plan assets to determine the amount the firm needs to contribute in the current period. Interestingly, for this calculation, the sponsoring firm determines the expected rate of return on plan assets (Kwan, 2003). The firm may provide an overly optimistic estimate in order to reduce its current funding obligations.

In addition to the annual funding requirement, ERISA also requires additional contributions based on a plan's current funding status. To determine funding status, ERISA compares the current market value of the plan to the accumulated benefit obligations (ABO). The ABO is the present value of all benefits attributed by the pension plan formula to employee service rendered up to the date of calculation. The ABO does not take into account future compensation increases. For a plan that is less than 90% funded (market value of plan assets are less than 90% of ABO), ERISA requires the firm to make an additional contribution to the plan to reduce the funding deficiency within three to five years (Kwan, 2003).

Current Underfunding of Pension Plans

The economic conditions in the United States over the past several years have negatively impacted the funding status of pension plans. On one side, falling stock prices have reduced the market value of plan assets. On the other side, low interest rates have

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

forced the use of a lower discount rate in the calculation of ABO (Kwan, 2003). In turn, the lower discount rate leads to a higher present value of current pension obligations (ABO). This “double whammy” has dramatically increased the number of pension plans that are currently underfunded.

In December of 2003, Standard & Poor’s announced that the pensions offered by the companies in the S&P 500 are underfunded by \$259 billion, up from \$212 billion a year ago (Brokamp, 2004). Of the 327 companies in the S&P 500 that offer defined benefit plans, 297 of those plans were underfunded at the end of 2002 (Kwan, 2003). The trend is similar for all organizations that still offer DC plans, including those in the public sector. According to a study by Wilshire Associates Inc., a California consulting firm that advises public pension plans on investments, more than half of all public pension plans are underfunded (money.cnn.com).

As mentioned earlier, ERISA requires firms that sponsor underfunded pension plans to make catch-up contributions to return the plan to a fully funded status. However, the law does have a few exceptions. If a plan is over 80% funded today and was more than 90% funded for the past two years, the additional contribution requirement is waived. Also, firms can request a hardship waiver or an extension period to meet normal and additional contribution requirements (Kwan, 2003).

Congress has recognized the difficult financial conditions facing companies today and the impact on firms’ ability to make pension contributions. In April 2004, Congress sent the President an \$80 billion pension relief bill that would save companies large amounts of money by changing the way required contributions are calculated. The legislation would also exempt certain airlines and steel companies that already have weak

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

pension plans from making their full required pension contributions in 2004. In regard to the airline and steel exemption, proponents of the bill argued that the measure was necessary to prevent these firms from filing bankruptcy or terminating their pension plans (Hulse, 2004).

Trends in Pension Plan Types

In addition to a poor economy, increased pension obligations, and decreased investment income, firms have been faced with a number of additional problems in recent years. Rising health care costs, increased global competition, and ever-increasing pressure from customers and stockholders to reduce costs and raise profits have put an enormous strain on the bottom line of American companies. Combine these factors with the inherent risks and commitments associated with defined benefit plans and it's easy to understand why companies are looking for ways to alleviate themselves from their pension obligations.

Employers have used several tactics to reduce their pension obligations under DB plans. Mercer Human Resource Consulting conducted a survey of their US clients in August 2003. Thirty-eight percent of the 170 respondents that sponsor a DB plan had changed their plan within the last three years. Of that group, 11% decreased their plan benefit formula, 17% froze their plan, and 15% closed the plan to new entrants. Forty-two percent of the 172 companies that sponsor a DB plan were considering changing their plan within the next six months. Of those who were considering plan changes, 49% were considering closing the plan to new entrants, 43% were considering freezing their plan, 40% were considering decreasing the plan benefit formula, and 20% were

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

considering terminating the plan. Clearly, employers are reevaluating their commitment to providing a strong defined benefit pension plan to their employees.

Many employers are switching to defined contribution plans or hybrid plans to eliminate or reduce the burden of the minimum funding requirements associated with defined benefit plans. This trend has been in effect since the 1980s. An indicator of the dwindling number of DB plans can be found in the number of plans insured by the Pension Benefit Guaranty Corporation (described in detail below). In 1985, the PBGC insured 114,500 defined benefit plans. In 2002, that number has dropped to fewer than 33,000 (McCaw). In the Mercer study, 26% of respondents converted from a traditional plan to a hybrid plan within the three years preceding the study and 49% were considering the possibility of doing so in the near future.

Pension Benefit Guaranty Corporation

The Pension Benefit Guaranty Corporation is a federally chartered government corporation established by the Employee Retirement Income Security Act of 1974 to insure the pension benefits of participants in qualified defined benefit plans. The PBGC provides insurance protection for most private sector tax-qualified defined benefit plans (GAO). The PBGC does not provide coverage for public pension plans or defined contribution plans (by definition, DC plans do not make a promise to pay a specific amount in a future period).

Companies that seek to terminate their underfunded pension plan must meet certain requirements under the PBGC. These requirements must demonstrate to the PBGC that the company cannot financially meet their pension obligations. The PBGC

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

may also initiate the termination of a distressed pension plan if it determines that doing so would be in the best interests of plan participants. In either case, the PBGC would take over plan assets and make benefit payments to participants.

The amount of benefits that the PBGC pays to participants of a plan that it has taken over depends on several factors. These factors include original plan provisions, the type of benefit the participant was entitled to receive, the amount of assets that PBGC recovered from the employer whose plan they have taken over, and the participant's age (GAO report). There is a statutory maximum that the PBGC will pay to participants regardless of the above factors (\$42,955 in 2002 for single-employer plans and \$12,870 per year in 2002 for multi-employer plans) (GAO).

Before current participants of defined benefit plans breathe a sigh of relief, they should consider that "benefit payments from the PBGC are often lower than what a retiree would have received had the company remained solvent". An October 2003 article in the Washington Post told the story of a 35 year Bethlehem Steel employee whose pension dropped from \$2,850 to \$1,700 after the PBGC assumed control of his plan (Brokamp, 2004).

Another important consideration is the decline in financial status of the PBGC itself. The PBGC is funded through insurance premiums paid by insured plans, investment returns on PBGC assets and assets acquired from terminated plans that the PBGC takes over (CBO). Consider, there is a trend toward fewer defined benefit type plans in the United States, hence fewer insurance premiums (discussed in detail in the next section). Declining investment returns (one of the causes of pension plan

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

termination) have also affected the value of PBGC's assets. And, the PBGC is taking over more plans, which leads to more obligations.

In 2003, the PBGC assumed control of 152 pension plans covering 206,000 people which is an increase of 10.2% over 2002. Its fund covering single-employer plans went from a \$7.7 billion surplus in 2001 to a \$11.2 billion deficit in 2003. In a statement released with PBGC's annual report in January 2004, Executive Director Steven A. Kandarian said, "The continued erosion of PBGC's financial condition underscores the need for comprehensive reforms to put pension plans on the path to better funding. While the PBGC has sufficient assets to pay benefits to workers and retirees for a number of years, the growing gap between our assets and liabilities puts at risk the agency's ability to continue to protect pensions in the future" (Brokamp, 2004).

Impacts on Retirement Planning and Recommendations

The precedent set by the \$80 Billion Pension Relief Bill discussed above should concern Americans, especially those covered by pension plans. Pension laws should take a conservative approach in regards to funding requirements. In the case of this bill, pension plans that are already dangerously underfunded are allowed to worsen at the expense of their beneficiaries. While it is true that making the required funding payments may send the firms into bankruptcy, pension obligations should be honored, as with any other business obligation. Firms that can't meet their obligations need to face the consequences. Postponing obligations only makes the situation worse, not to mention the message it sends to other companies.

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

The problem that this bill and the underfunded status of pension plans in general, present to retirement planners is clear. The pension plan income that employees are counting on may not be there when they retire. Sure, an underfunded pension is better than no pension at all and the PBGC provides some level of assurance to plan participants. However, when a pension plan does become distressed, it is likely the participants will receive a smaller benefit than originally planned. That can have a drastic impact on an individual's quality of life in retirement. Individuals covered under defined benefit plans should frequently monitor the funding status of their plans.

The trend of employers shifting from defined benefit plans to defined contribution plans has one major impact on retirement planning. Switching to a DC plan effectively transfers the investment risk associated with plan assets from the employer to the employee. Under a DC plan, once the employer has made the contribution into the employee's "account", that is the end of the employer's commitment. Those contributions are then invested, often under the direction of the employee, and what remains in the account at the employee's retirement date represents their retirement benefit. If the investments provide small or negative returns, the employee must shoulder the entire burden. These arrangements make for difficult planning because one must estimate the return that will be generated by the investments. Under a traditional DB plan, the employee could count on fixed payment each month.

Individuals should be conservative when considering pension plan income in their retirement plans. Individuals who are further away from retirement should be more conservative. We have seen the trends surrounding pension plans and they all lead to

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

uncertainty for the individual. To counteract this uncertainty, individual savings should be a key part of all retirement plans.

**Part III: Individual Saving**

***What Can I Do to Ensure I Retire Successfully?***

***1. Start Early - 401k's***

Retirement should begin being planned for as soon as a person enters the "working world". This normally begins with enrolling in the employer's 401k or equivalent plan (403b plans are used for non-profit companies and Keogh's and SEP-IRAs are used for self-employed people. SEP-IRA stands for "simplified employee pension individual retirement account).

Under a 401k and/or 403b, the employee contributes a certain percentage of their pay and the employer also contributes a percentage. The percentage contributed by the employer varies from employer to employer but is essentially "free" money to the employee that they otherwise will not receive as a benefit in another form. These contributions are also on before-tax pay so are not taxed, another benefit for participating. This type of savings account can be drawn on in the form of a loan by the employee, under special conditions, such as purchasing a new home or other special circumstance. These terms will also vary by employer but the additional benefit that the person receives is that the interest paid back on the loan will truly be returned to themselves and increase the amount in their own 401k. They will be paying themselves back. However, taking loans from a 401k plan should be pursued with caution since it, in most cases, would need to be paid back right away upon leaving the company.

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

There are also other terms and conditions and one is that the money can be returned to the employee if it is needed but there are penalties that need to be paid on this for early withdrawal. This is not uncommon in the finance world and we will see some other types of similar investments, such as IRAs in the following section that also have penalties assigned for early withdrawal. By law, individuals who take a lump-sum distribution from their 401(k) before age 55 will be assessed a 10 percent early withdrawal penalty, as well as federal and state income taxes. "Cashing out of one's 401(k) plan is the least advised thing people can do if they want to have enough money saved for retirement," says Brimhall. "This is money that grows tax deferred until it's withdrawn, which over time allows you to save more money for your own retirement" ([home3.americanexpress.com](http://home3.americanexpress.com)).

"The deferred compensation contribution limits will increase over time. These increases will apply to 401(k), 403(b), 457 plans, and Salary Reduction SEP (SARSEP) Plans. The maximum contribution limits will be increased by \$1,000 per year beginning with 2002 when the maximum contribution was \$11,000 and ending in 2006 when the contribution amount will have increased to \$15,000.

After 2006, the maximum contributions will be indexed for inflation. And there are also catch-up provisions for these types of plans. Beginning in 2002, for workers age 50 and older, the catch-up amount that can be contributed will amount to \$1,000, and will increase by \$1,000 each year until 2006 (resulting in a \$5,000 catch-up). After that, the catch-up amount will be indexed for inflation. And these catch-up provisions are in play

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

even if your contributions would otherwise be limited, even if the limitation is caused by non-discrimination provisions or a limit based on your percentage of compensation. So in 2006, if you're age 50 or older at that time, your maximum contribution to your 401(k) or similar plan could be as much as \$20,000 -- \$15,000 in regular contributions and \$5,000 in catch-up contributions" ([www.fool.com](http://www.fool.com)).

**TIP 1: It is incredibly important to begin saving as early as possible.**

**401k/403b plans should be contributed to at the highest percentage that the company will match prior to looking into any additional retirement options.**

**2. *IRA's - And Roth Is the Winner***

"Outside of your corporate retirement plan, an IRA is the best way for you to accumulate tax-advantaged retirement savings" ([www.smartmoney.com/retirement/roth/](http://www.smartmoney.com/retirement/roth/)). "The reason that retirement accounts are so lucrative is that the government is providing you with the ability for tax deferred savings. Tax deferred savings means that the money you deposit into your retirement account is tax sheltered or deductible. Therefore, a majority of what you deposit into the account will go towards earning you interest rather than to the government as tax. Don't think the government is not going to get their cut, tax is collected after you retire and begin withdrawing the money" ([www.investopedia.com](http://www.investopedia.com)).

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

There are a few different types of IRA accounts currently in the marketplace. There are the tax -deductible and nondeductible IRAs as well as a newer form of IRA, the Roth IRA. Some of the differences between the traditional and Roth are as follows:

- Unlike the tax-deductible and nondeductible IRAs, Roth IRA withdrawals after the age of 59 1/2 generally are not taxable. (After tax dollars are contributed to the Roth IRAs.)
- "Besides fostering tax-free growth, the Roth IRA has flexible withdrawal rules. You can take out contributions (but not gains) for any reason without penalty or taxes. And after you reach age 59 1/2 and have had the account open for five years, you can withdraw your gains tax- and penalty-free as well. Ditto, if you become disabled" ([www.smartmoney.com/retirement/roth/](http://www.smartmoney.com/retirement/roth/)).
- Roth IRAs allow investors to accumulate more money than the tax-deductible IRAs do for people who remain in the same or higher income tax bracket after retirement.
- There are income limitations that must be met in order to qualify for the Roth IRA.

The Roth IRA has guidelines in place so that not everyone is qualified to participate in this program. The eligibility income limits are a maximum of \$160,000 in modified adjusted gross income for joint filers and \$110,000 in modified adjusted gross income for individual filers. The phase-out for joint filers begins at about \$150,000 and the phase-out for individuals begins at \$95,000.

Both of these IRA options allow for a \$3,000 per person annual contribution, which increases to \$3,500 if you're 50 or more at the end of the year. This additional

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

contribution is known as the catch-up contributions. If you are 50 or over the amount is an additional \$500 through 2005 and \$1,000 in 2006 and thereafter. Individuals with modified adjusted gross income of \$100,000 or less per year can also roll over their traditional IRA accounts into a Roth. Tax will need to be paid on the rollover but then the funds will be treated under the Roth guidelines, which as you can see, are not as stringent as the traditional guidelines.

Currently, there are revisions being made on a Federal level as to how much can be contributed to IRAs. "The annual contribution limits for both traditional and Roth IRAs will increase from \$3,000 to \$5,000. This increase will be phased in over several years.

Here's how the contribution limits will look:

- 2002 through 2004: \$3,000 max contributions
- 2005 through 2007: \$4,000 max contributions
- 2008: \$5,000 max contribution" ([www.fool.com](http://www.fool.com))

**TIP 2: The most advantageous of the two IRA accounts discussed above appears to be the Roth IRA since the withdrawal requirements are not as stringent as the normal IRA and withdrawals after 59 1/2 are non-taxable. Contribute the maximum possible to a Roth IRA after taking full advantage of your employers' 401k program.**

### **3. *Annuities***

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

Annuities are similar to original IRA's in that they allow your capital to grow and compound tax-deferred. Taxes are deferred until the time you withdraw the funds. Unlike the IRA's there is no limit on how much you can contribute in any given year. Similar to the Roth IRA, there is no up-front tax deduction received for your contributions.

Annuities are contracts backed by insurance companies. If the annuity holder/investor dies during the accumulation phase (prior to receiving payment from the annuity), the beneficiary is guaranteed reimbursement of the amount of the original investment. Annuities should only be considered after the first two alternatives we previously discussed, 401k's and IRA's, have been exhausted. Annuities are not tax deductible and also tend to carry higher annual operating expenses to pay for the small insurance that comes with them. Annuities make the most sense if you have fifteen or more years until you need the money because of the higher annual expenses.

#### **4. *Choosing Investments***

After the decision has been made as to what retirement options you are going to use you still must decide what investments are going to be held within these accounts since the options discussed above are only structures. You must still make the decision as to what stocks, bonds, mutual funds and bank accounts you will hold in your portfolio. Mutual funds are a very good choice since they provide diversification and professional management. This is ideal for the average investor who doesn't have the time, energy or knowledge to track an active portfolio and make buy/sell decisions on a daily basis.

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

There are fees charged on the mutual funds. Most of the fees are minimal and are netted out of the returns and are definitely less than having an active broker making buy and sell transactions for you and tracking your portfolio on a daily basis.

**5. Taxes**

By funding retirement accounts you can minimize your income taxes by taking advantage of the 401k option which is contributed to on a before-tax basis. The tax-deductible IRA's also work this same way. In addition to reducing your current taxable income you also shelter your portfolio's investment income from taxation over the duration you hold your investments for.

You should also look at your tax bracket to determine which types of investments you should be pursuing outside of retirement accounts in your ordinary investment strategy. If you are in a high tax bracket you would want to be more active in options that reduce your tax such as tax-free bonds and low dividend stocks. Real estate and small business investments are also wise choices if you are in a high tax bracket. If you are in a lower tax bracket, and invest in tax-free bonds you will end up with a lower return than if you pursued the high-yield bonds, which are taxable.

"Knowing your marginal tax rate allows you to quickly calculate any additional taxes that you would pay on additional income, or the amount of taxes that you save if you contribute more money into retirement accounts or reduce your taxable income (for example, if you choose investments that produce tax-free income). Your *marginal tax*

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

rate is the rate of tax that you pay on your *last* or so-called *highest* dollars of income" (Investing for Dummies, p. 59).

The marginal tax rate shows you just how valuable reducing your taxable income can be to your financial health. Following is a listing of the marginal rates effective for 2001:

<b>Your tax rate is:</b>	<b>Single</b>	<b>Married joint filing or qualifying widow(er)</b>	<b>Head of household</b>	<b>Married filing separately</b>
15% if your taxable income is over:	\$0	\$0	\$0	\$0
27.5% if your taxable income is over:	\$27,050	\$45,200	\$36,250	\$22,600
30.5% if your taxable income is over:	\$65,550	\$109,250	\$93,650	\$54,625
35.5% if your taxable income is over:	\$136,750	\$166,500	\$151,650	\$83,250
39.1% if your taxable income is over:	\$297,350	\$297,350	\$297,350	\$148,675

With the signing of the new tax laws on June 7th, 2001, things changed. The new 10% tax bracket became effective through a rate reduction credit. The next bracket of income will still be taxed at 15%. However, effective July 1, 2001, the previous regular income tax rates of 28%, 31%, 36% and 39.6% are phased down over six years to 25%, 28%, 33% and 35% respectively. Here's a glimpse of what the expected tax rates are to be phased in through the year 2006:

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

<b>Calendar Year</b>	<b>28% Rate Reduced to:</b>	<b>31% Rate Reduced to:</b>	<b>36% Rate Reduced to:</b>	<b>39.6% Rate Reduced to:</b>
2001	27.5%	30.5%	35.5%	39.1%
2002	27%	30%	35%	38.6%
2003	27%	30%	35%	38.6%
2004	26%	29%	34%	37.6%
2005	26%	29%	34%	37.6%
2006 and later	25%	28%	33%	35%

([www.quicken.com](http://www.quicken.com))

As can be seen from the first table above, you don't want to bump your tax rate up into another tax bracket since you will be taxed at this higher rate. This should be considered when making investments and especially when you are selling investments. One of the favorable aspects of the retirement accounts is that retirees are expected to be in a lower tax bracket, once they are retired, than they were when they were working. This means that, in the end, when they are making withdrawals from their retirement account, and have investment income they will pay less taxes on it than they would have had they not been sheltering these earnings in retirement accounts through their working years.

**6. *How are Americans doing saving for retirement?***

Many people think they know how much they will need to have a secure retirement, but most are wrong. Investopedia.com says, "We can say fairly safely that to retire in style you will need more than \$1 million. Other experts often use the rule of thumb that the average person will need 70% of their gross income for each year while in retirement. The sad thing is, no more than 12% of us will achieve this level. In fact, less than half of us will fail to save up even \$500,000!" ([www.investopedia.com](http://www.investopedia.com))

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

American Express did a telephone survey on working adult men and women who had recently left or lost their jobs regarding retirement and also found some astonishing results.

- 30 percent did not invest for retirement in their company's 401(k) plan.
- Of the 2,000 adults interviewed, one out of four had experienced a job transition in the last five years.
- Younger workers, by a wide margin, were the least likely to be saving for retirement. Almost half of those who didn't invest in their 401(k) plan were between the ages of 18 and 24, and 30 percent were between the ages of 25 and 34.
- Income was a contributing factor. More than half of those surveyed, who were not saving for retirement earned less than \$25,000; another one-third reported an annual income between \$25,000 and \$50,000.

The American Express survey was conducted in June 2002. The margin for error is plus or minus 3 percent. ([home3.americanexpress.com](http://home3.americanexpress.com))

Another survey that was conducted reported on how prepared people thought they were for retirement. "Nearly two-thirds of working Americans feel confident that they will live comfortably in retirement and almost three-quarters have started saving for retirement. However, the same survey also found that over half of workers feel they are behind schedule for planning and saving for retirement. Workers who have done a retirement needs calculation are more likely to be confident that they will live comfortably in retirement and are less likely to feel that they are behind schedule for

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

planning and saving for retirement. However, more than one-half of workers have yet to determine how much retirement savings they will need" ([www.urban.org](http://www.urban.org)).

Another survey conducted by Allstate shows that, "a slumping economy, dwindling investments and stagnant salary increases has taken its toll on many Americans, with 29 percent of those surveyed reporting that they will need to postpone their retirement. Fifty-eight percent of those surveyed say that because of the economy, they have not saved as much money for retirement as they would have liked. In addition, the economic downturn has forced 46 percent of survey respondents to cut back on spending. It is even more dramatic for surveyed African-Americans and Hispanics, as 59 percent of African-Americans and 53 percent of Hispanic have cut back on spending due to the economy, compared to 42 percent of surveyed Caucasians" ([www.allstate.com](http://www.allstate.com)).

"The good news is that the majority of survey respondents (84 percent) are saving for retirement. The bad news is that almost half (46 percent) also reported that they are concerned that they will outlive their retirement savings. And while 34 percent of respondents are currently saving for retirement and feel "on track" to meet their financial goals, another 50 percent admit that they are saving for retirement, but not at a level that they should be. In addition, 46 percent of those surveyed admitted that in recent years, they have had to save more money for retirement to catch-up to where they should be" ([www.allstate.com](http://www.allstate.com)).

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

In conclusion, the surveys say.... Begin Saving Early! This can't be emphasized enough. In order to get the most bang for your buck you must begin saving as early as possible to reap the benefits of interest compounding. In the order we would suggest to invest: (1) 401k plan (or equivalent); (2) Roth IRA (for the vast majority of people); (3) annuities (depending on age); (4) and then other investments, likely mutual funds. Mutual funds are recommended for the typical person that may not be investment savvy or want to take the time to monitor and research individual stocks and bonds. In all cases, federal income taxes should be reviewed and investors should be aware of how their investing might affect their marginal tax rate.

### **General Conclusion**

Since World War II, the US government and corporations have helped Americans with their retirement through programs like Social Security, pension plans and later Medicare. Nevertheless, people have always been responsible for saving on their own if they wanted to supplement their retirement benefits with other income in order to enjoy a more comfortable retirement. These personal savings also extended to the payment of all health expenses not covered by Medicare. With the aging of the baby boomers, increasing pressure is on Social Security funds, Medicare funds and pension funds. The US is going through a major health care crisis, mainly due to the explosion of health expenditures. Prescription drug costs are partly responsible for the dramatic increase of healthcare costs, together with the unhealthy and sedentary lifestyle of the American population. To successfully resolve this challenging crisis, it is imperative that actions are undertaken on different fronts simultaneously. This is why government, employers and individuals must all participate. The new Medicare drug law should help people in Medicare with their prescription drug costs. Additional efforts are needed to offer more people health coverage and to decrease disability rates by improving public and private health promotion programs. Meanwhile, Americans cannot count on increased benefits from Social Security or private pension plans for relief from higher health insurance premiums in retirement. In order to remain solvent, Social Security will undergo some major changes in the coming years. These changes are very likely to involve a reduction in benefits. In order to combat higher pension servicing costs, companies are looking for ways to reduce or eliminate pension plan benefits. The only

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

sure way to prepare for health insurance costs in retirement is through individual savings plans. Unfortunately, it appears that few Americans saved as much as they should have. Consequently, with higher taxes and reduced benefits possibly looming on the horizon, workers of all ages would do well to start saving as much as they can, as soon as they can.

### **Bibliography**

- 4-refund.com information on Social Security - [http://4-refund.com/fg-SS\\_Benefits.html](http://4-refund.com/fg-SS_Benefits.html).
- AARP resources for retirement planning - [www.aarp.org/financial-planning/retire](http://www.aarp.org/financial-planning/retire).
- Anonym, 2003. "Employee health: Metlife research highlights top five workplace disabilities", Heart Disease Weekly (November 23).
- Anonym, 2004. "Entitlements "crisis", The New-York Times (March 26).
- Appleby, J. 2004. "Health insurance premiums crash down on middle class", USA Today (March 17).
- Barlett, D. L. and Steele, J. B. 2004. "Why we pay so much for drugs", Time magazine (February 2).
- Benko, L. B. 2003. "Boomer bust? While hospitals increase capacity to prepare for an onslaught of aging baby boomers, some say medical advances and health awareness mean those extra beds will stay empty", Modern Healthcare (July 28)
- Boccuti, C and Moon, M. 2003. "Private, individual drug coverage in the current medicare market" The Commonwealth Fund (October 2003).
- Boccuti, C. Moon, M. and Dowling, K. 2003. "Chronic conditions and disabilities: trends and issues for private drug plans", The Commonwealth Fund (October 2003), [www.cmwf.org](http://www.cmwf.org).
- Brokamp, Robert 2004. "Can You Count on Your Pension?". The Motley Fool (January 21), [www.fool.com/news](http://www.fool.com/news).

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

- Collins, S. R.; Dohy, M. M.; Davis, K.; Schoen, C.; Holmgram, A. L. and Ho, A. 2004. “The affordability crisis in US health care: findings from the Commonwealth fund biennial health insurance survey”, The Commonwealth Fund (March).
- Congressional Budget Office. Social Security: A Primer. September, 2001.
- “Coping With The Economy: Survey on Retirement Programs”. Mercer Human Resources Consulting. 2003.
- Davis, K. 2003. “Time for change: the hidden cost of a fragmented health insurance system”, The Commonwealth Fund (March 10).
- Freudenheim, M. 2004. “Companies limit health coverage of many retirees”, The New-York Times (February 3).
- Fronstin, P. and Salisbury, D. 2003. “Retiree Health Benefits: savings needed to fund care in retirement”, Employee Benefit Research Institute (February), [www.ebri.org](http://www.ebri.org).
- Geller, A. 2004. “Workers resigned to more cuts in retirement benefits”, Seattle Post-Intelligencer (February 9).
- Greene, K. 2004. “Workers Harbor Unrealistic Hopes For Retirement”. The Wall Street Journal. (April 5).
- Hulse, C. and Maynard, M. 2004. “\$80 Billion Pension Bill is Approved by the Senate.” The New York Times. (April 9), <http://query.nytimes.com>.
- Kwan, S. 2003. “Underfunding of Private Pension Plans”. Federal Reserve Bank of San Francisco Economic Letter. 2003-16. (June).
- Longman, P. 2004. “The limits of medicine”, Washington Post (March 31).
- McCaw, D. 2004. “Strengthening Pension Security for all Americans: Are Workers Prepared for a Safe and Secure Retirement?”. Mercer Consulting Website (March 22), [www.mercerhr.com/knowledgecenter](http://www.mercerhr.com/knowledgecenter).

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

- Novelli, W. D. 2004. “Drastic reforms hurt seniors”, USA Today (March 28).
- Pear, R. 2004. “In Arizona, unease over new medicare drug law”, The New-York Times (April 18).
- Pear, R. 2004. “Medicare overseers expect costs to soar in coming decades”, The New-York Times (March 24).
- “Public Pension Plans Underfunded”. CNN/Money Website. 16 Aug. 2002. <http://money.cnn.com>.
- Pyle, E. 2004. “Medicare arrives too late for many uninsured adults”, The Columbus Dispatch (January 27).
- Siskos, C. 2004. “Get out early” Kiplinger’s Personal Finance (March).
- Social Security Administration Website, [www.ssa.gov/history](http://www.ssa.gov/history).
- United States General Accounting Office. Answers to Key Questions about Private Pension Plans. September, 2002.
- Weil, E. 2004. “Geared up for health”, Time Magazine (February 10).
- Wiener, L. 2004. “Feeling the squeeze”, US News & World Report (March 8).
- [www.allstate.com](http://www.allstate.com)
- [www.benefitscheckup.org](http://www.benefitscheckup.org)
- [www.blackhealthcare.com](http://www.blackhealthcare.com), BlackHealthCare.com addressing the Health Care issues of African-Americans.
- [www.cms.hhs.gov](http://www.cms.hhs.gov), Center for Medicare & Medicaid Services.
- [www.ebri.org](http://www.ebri.org), “Prescription drugs: recent trends in utilization, expenditures and coverage”, Employee Benefit Research Institute Issue brief executive summary n° 265, January 2004.

*Trends in Health Insurance, Pension Plans, Social Security, Individual Savings and Their Effects on Retirement Planning*

- [www.fool.com](http://www.fool.com)
- <http://home3.americanexpress.com>
- Investing for Dummies, p. 59.
- [www.investopedia.com](http://www.investopedia.com)
- [www.kff.org](http://www.kff.org), The Henry J. Kaiser Family Foundation, Medicare Fact Sheets, “Medicare at a glance”, “The Medicare Prescription Drug Law”, “Medicare Advantage”.
- [www.medicare.gov](http://www.medicare.gov)
- [www.ncoa.org](http://www.ncoa.org)
- [www.obesity.org](http://www.obesity.org), American Obesity Association.
- [www.quicken.com](http://www.quicken.com)
- [www.rand.org](http://www.rand.org), “Rand study says disability rates rise, finds link to obesity”, Rand Corporation, January 8, 2004.
- [www.research.aarp.org](http://www.research.aarp.org), The status of the Medicare Part A and Part B trust funds: the trustees’ 2004 annual report.
- [www.smartmoney.com/retirement/roth/](http://www.smartmoney.com/retirement/roth/)
- [www.urban.org](http://www.urban.org)
- Wysocky, Jr. B 2004. “To fix health care, hospitals take tips from factory floor”, The Wall Street Journal” (April 9).